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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [BU](#)

SUBJECT: BULGARIANS SEEKING PARTNERS FOR B-A PIPELINE;
CHEVRON WEIGHING PROPOSAL

REF: SOFIA 1073

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d).

¶1. (C) Summary: Minister of Regional Development Asen Gagauzov told Ambassador September 12 that Bulgaria is seeking proposals from oil suppliers, specifically Kazmunaigaz and Chevron, to allow Bulgaria to fill its 24.5 percent of the Burgas-Alexandropoulos pipeline (B-A). Bulgaria is doing this, he said, despite the conviction that Russia's August ultimatum -- that Bulgaria and Greece either give up their decision-making rights in the proposed international pipeline company in return for Russian commitments to fill the pipeline or take on the responsibility of filling 49 percent of the pipe themselves -- contradicts the terms of the Intergovernmental Agreement on B-A (Reftel). Meanwhile, Chevron's lead consultant for B-A informed us September 10 that Chevron is working on a proposal to take over the Bulgarian and Greek shares of the pipeline. Chevron believes Russia has a logical view of how this pipeline should be structured commercially, but is acting in typical "bulldog fashion" and is not winning any friends in Greece or Bulgaria. According to Chevron, because of the way the Governments of Bulgaria and Greece have sold this project to their populations, they will look like they are giving in to the Russians if they concede any decision-making rights or shares in the pipeline. Therefore, Chevron believes only outside, private sector entities can break the political B-A deadlock, by becoming owners of the pipe, not just suppliers to it. End Summary.

Bulgarians Weighing Options

¶2. (C) Minister of Regional Development Gagauzov requested the September 12 meeting with the Ambassador to update him on B-A negotiations. Gagauzov confirmed the August 27-28 B-A meetings in Athens had been particularly difficult. In Bulgaria's view, Russia's ultimatum - that Bulgaria and Greece give up their decision-making rights in the pipeline in return for Russian commitment to fill the pipeline or fill 49 percent of the pipe themselves - violates the terms of the Intergovernmental Agreement on B-A the three countries signed March 15 in Athens. Gagauzov said under no circumstances would Bulgaria concede all of its decision-making rights in the international pipeline company to Russia, although Bulgaria might be willing to negotiate giving up decision-making power on some operational matters. He said Bulgaria is ready to stand firm with Greece in the face of Russian pressure on this point.

¶3. (C) Before the next B-A meeting, to be held in Moscow September 26 (a meeting of the B-A legal advisers will meet in Moscow September 19), Gagauzov said Bulgaria hopes to have

proposals from Chevron and Kazmunaigaz on shipment commitments. While Gagauzov did not rule out the eventual sale of Bulgaria's shares to one of these companies, at this point Bulgaria would rather procure its 24.5 percent of the pipeline's capacity than sell its shares. He said Foreign Minister Kalfin held preliminary talks on B-A while in Kazakhstan September 3, but Bulgaria has received no concrete proposals from Kazmunaigaz to date.

Chevron's Possible Proposal

¶4. (C) On September 10, Chevron's lead B-A consultant Mark Woloshyn told us that Chevron is developing a proposal to take over the Bulgarian and Greek shares of the pipeline. Woloshyn admitted his company's view of how the pipeline should be structured is in line with Russia's. Russia, he said, has a logical vision for this project but is acting in typical "bulldog fashion" and alienating its negotiating partners in the process. Woloshyn said the Governments of Bulgaria and Greece face political difficulties because of the way they have sold this pipeline to their publics. As a result, they will look like they are giving in to the Russians if they hand over decision-making power in return for oil guarantees. According to Woloshyn, it is time for the private sector to step in to unblock the political logjam. He noted Chevron's proposal would include a number of points designed to help Bulgaria and Greece sell such a plan to their publics. These include:

-- Calculating for the Governments of Bulgaria and Greece the tax revenues and gains from local employment they would receive from the pipeline.

-- Estimating, on a preliminary basis, how much the

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companies involved could earn through subcontracting.
(Woloshyn warned this figure would depend on EU regulations on procurement.)

-- Developing a proposal for a cash payment to Bulgaria and Greece for their shares of the pipeline. Woloshyn warned that this number would not be "massive" because Chevron does not believe Bulgaria and Greece have much of value to sell at this point. But he added that Chevron could offer a certain sum up front and then more later as an incentive for making this deal happen. Woloshyn warned, however, that EU regulators may view the immediate sale of B-A shares by state-owned companies as State Aid. Therefore, it might make more sense for these companies to sell their shares when the project is further developed and they can legitimately receive compensation for work they have put into the pipeline (in Bulgaria's case, for example, after the project has received all needed environmental permits.)

-- As a face-saving measure, allowing Bulgaria and Greece to keep a certain percentage, perhaps five percent, in the pipeline, with limited voting rights.

¶5. (C) Woloshyn noted that while Bulgaria and Greece would rather receive ship or pay guarantees from Chevron (and Kazmunaigaz) to procure their 49 percent of the pipeline capacity, Chevron is unwilling to issue such guarantees. It would make more commercial sense for Chevron to buy into the pipeline than to allow the Bulgarians and Greeks to finance the project on the basis of Chevron's commitment to ship oil.

He added that if Chevron is successful in moving B-A forward, the company would use this effort to prod the Russians to accept CPC expansion. Woloshyn cautioned that these ideas are preliminary and have not received company approval. He requested USG "input and advice" on the political feasibility of such a proposal, commenting that such a plan would need the support of the United States and the EU in order for the GOB and Greece to accept it.

¶6. (C) Comment: The GoB appears to be betting it will be

able to come to terms with Chevron and/or Kazmunaigaz on ship or pay guarantees, something Chevron has told us is not on the table. Bulgaria's fall-back position is unclear, as is Chevron's. Chevron has made clear to us that its involvement in B-A is dependent on CPC expansion, while it appears Russia has made progress on B-A a precondition for CPC expansion.

The news that Transneft head Semyon Vainshtok is stepping down was greeted by Bulgaria's B-A negotiators as a positive sign that B-A negotiations could take a more positive turn. Our Chevron contact also told us Vainshtok's departure is at least partially linked to Putin's desire to speed up negotiations on B-A. End Comment.

Beyrle